

Message Text

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PAGE 01 TOKYO 13143 081056Z

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SUBJECT: PRESIDENTIAL VISIT BACKGROUND PAPER VI: US-JAPAN
BILATERAL TRADE

1. THE VOLUME OF TRADE BETWEEN THE US AND JAPAN IS GREATER THAN BETWEEN ANY OTHER TWO COUNTRIES EXCEPT THE US AND CANADA. IT HAS BEEN GROWING STEADILY IN RECENT YEARS AT ABOUT A 25 PERCENT ANNUAL RATE AND REACHED A TWO-WAY TOTAL OF \$17.9 BILLION IN 1973. US EXPORTS TO JAPAN WERE \$8.3 BILLION AND IMPORTS FROM JAPAN \$9.6 BILLION. JAPAN TAKES 12 PERCENT OF TOTAL US EXPORTS AND SUPPLIES 14 PERCENT OF TOTAL US IMPORTS. THE UNITED STATES, AS BOTH MARKET AND SUPPLIER, IS EVEN MORE IMPORTANT TO JAPAN. THE UNITED STATES TAKES 26 PERCENT OF JAPAN'S TOTAL EXPORTS AND SUPPLIES 24 PERCENT OF TOTAL IMPORTS. GRAINS AND SOYBEANS, COAL, LOGS AND LUMBER AND CHEMICALS ARE THE MAIN US EXPORTS TO JAPAN; LEADING IMPORTS ARE AUTOMOBILES, IRON AND STEEL, MOTORCYCLES AND CONSUMER ELECTRONIC PRODUCTS.

2. SIZEABLE US TRADE DEFICITS WITH JAPAN -- \$3.2 BILLION IN 1971 AND \$4.2 BILLION IN 1972 -- WERE A SOURCE OF BILATERAL TENSION. REALIGNMENT OF CURRENCY VALUES, REDUCTION OF JAPANESE TRADE BARRIERS, INFLATION IN JAPAN AND HIGH COMMODITY AND RAW MATERIALS PRICES ALL
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PAGE 02 TOKYO 13143 081056Z

CONTIBUTED TO A REDUCTION OF THE DEFICIT TO \$1.3

BILLION IN 1973. IN THE FIRST EIGHT MONTHS OF 1974
US EXPORTS TO JAPAN WERE \$6.92 BILLION, AN INCREASE OF
30.1 PERCENT FROM THE SAME PERIOD OF 1973. US IMPORTS
FROM JAPAN JANUARY-AUGUST INCREASED 19.7 PERCENT FROM
LAST YEAR TO \$7.74 BILLION.

3. SIZEABLE US TRADE SURPLUSES IN FEBRUARY AND MARCH LED
TO A CUMULATIVE US SURPLUS OF SOME \$135 MILLION THROUGH
FIRST FIVE MONTHS OF 1974 BUT EVEN LARGER JAPANESE SU-
PLUSES IN JUNE-AUGUST PRODUCED A US BILATERAL DEFICIT
FOR THE FIRST EIGHT MONTHS OF \$824 MILLION. (IN
THE FIRST EIGHT MONTHS OF 1973 THE US BILATERAL TRADE
DEFICIT WITH JAPAN WAS \$1,154 MILLION.) THE 1974 MONTH-
BY-MONTH PATTERN OF US DEFICITS (-) AND SURPLUSES WITH
JAPAN (IN MILLIONS OF DOLLARS) OFFERS NO FIRM BASIS FOR PREDICTING
THE PROBABLE
RESULTS FOR CY 1974 AS A WHOLE (THE FIGURES ARE -40.2,
201.6, 130.9, -6.6, -151.2, -219.8, -414.2, -324.6). A
STRAIGHT PROJECTION THROUGH DECEMBER OF THE AUGUST IM-
PROVEMENT OVER JULY WOULD PRODUCE A US DEFICIT OF \$1.22
BILLION FOR FULL YEAR (I.E. A SLIGHT IMPROVEMENT
OVER 1973) BUT VOLATILITY OF US-JAPAN TRADE MAKES THIS
PROJECTION NO MORE (AND NO LESS) VALID THAN ANY OTHER
GUESS.

4. A FORECAST OF TRADE TRENDS FOR SEPTEMBER-DECEMBER WOULD
REQUIRE DETAILED MICRO-ECONOMIC ANALYSIS OF MARKET CON-
DITIONS IN BOTH COUNTRIES FOR WIDE RANGE OF GOODS. OUT-
LOOK FOR A FEW MAJOR COMPONENTS OF OUR BILATERAL TRADE,
HOWEVER, CAN BE INDICATED. FOR EXAMPLE, ON US EXPORT
SIDE, WE ESTIMATE OUR EXPORTS OF AGRICULTURAL PRODUCTS
FOR FULL YEAR WILL REACH \$3.4 BILLION (\$383 MILLION
HIGHER THAN 1973) WITH OVER \$1.3 BILLION EXPECTED
IN AUGUST THROUGH DECEMBER. US SALES OF AIRCRAFT AND
PARTS ARE EXPECTED TO REACH \$420 MILLION FOR YEAR (\$190
MILLION ABOVE 1973 LEVEL) WITH DELIVERIES WORTH ABOUT
\$90 MILLION IN AUGUST-DECEMBER. ON US IMPORT SIDE,
JAPANESE SALES OF STEEL AND CHEMICALS SEEM LIKELY REMAIN
STRONG FOR REST OF YEAR BUT VERY LARGE INVENTORIES OF
JAPANESE AUTOMOTIVE VEHICLES ALREADY IN US (4 TO 6 MONTH
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SUPPLY) INDICATE THAT LARGE DROP FROM RECENT LEVELS OF
ARRIVALS CAN BE EXPECTED IN FINAL QUARTER OF YEARS. SALES
OF SOME OTHER IMPORTANT JAPANESE EXPORT ITEMS TO US
(CLOTHING, OFFICE MACHINES AND CONSUMER ELECTRONIC PRO-
DUCTS) HAVE ACTUALLY DECLINED THUS FAR IN 1974 AND SEEM
LIKELY TO REMAIN BELOW 1973 FOR FULL YEAR 1974.

5. FOREGOING EXAMPLES OF COURSE DO NOT GIVE COMPLETE

PICTURE BUT OUR CURRENT READING OF SITUATION SUGGESTS US
BILATERAL DEFICIT WITH JAPAN FOR 1974 SHOULD NOT BE
SIGNIFICANTLY LARGER THAN 1973.

6 FINALLY, EMBASSY SEES NO EVIDENCE THAT GOJ HAS EM-
BARKED EITHER OFFICIALLY OR INFORMALLY ON AN QTE EXPORT
DRIVE UNQTE EITHER GLOBALLY OR AIMED AT US MARKET.
SLUGGISH DOMESTIC JAPANESE ECONOMY PROVIDES STRONG
NATURAL INCENTIVE FOR PRIVATE FIRMS TO PUSH SALES
ABROAD AS VIGOROUSLY AS FOREIGN MARKET WILL TOLERATE
BUT THESE ARE PRIVATE ENTREPRENEURIAL EFFORTS WITH
NONE OF THE EARMARKS OF A CONCERTED OFFICIALLY INSPIRED
QTE DRIVE. UNQTE. JAPANESE EXPORTS TO OTHER MARKETS
INCREASING MORE RAPIDLY THAN TO US: IN FIRST 7 MONTHS
OF 1974, JAPAN'S EXPORTS TO WORLD INCREASED 50 PERCENT, TO US
31 PERCENT, TO EC 35 PERCENT, TO LDC'S 66 PERCENT AND
TO COMMUNIST AREA 76 PERCENT.
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